Royalco Resources Limited

ABN 53 396 321 532

Annual Report - 30 June 2011

Royalco Resources Limited
Corporate directory
30 June 2011

Directors	Mr Peter Topham (Executive Chairman) Mr David Ogg (Executive Director) Mr Bruce Pertzel (Non-Executive Director) Mr Chris Orchard (Non-Executive Director)
Company secretary	Mr David Ogg and Mr Nick Boicos
Registered office	Level 1 394-396 Little Bourke Street Melbourne VIC 3000
Principal place of business	Level 1 394-396 Little Bourke Street Melbourne VIC 3000
Share register	Security Transfer Registrars Pty Ltd 770 Canning Highway Applecross WA 6153
Auditor	Leydin Freyer Audit Pty Ltd Chartered Accountants Ms Loren Datt Suite 304, 22 St Kilda Road St Kilda, VIC 3182
Bankers	ANZ Banking Group 388 Collins Street, Melbourne Victoria 3000 Commonwealth Bank of Australia 367 Collins Street, Melbourne Victoria 3000
Stock exchange listing	Royalco Resources Limited shares are listed on the Australian Securities Exchange (ASX code: RCO)
Website address	www.royalco.com.au

Chairman’s Address

Royalco’s business model continued to reward its shareholders in 2010/11. Capital management initiatives progressed to the delivery of fully franked dividends with the maiden dividend paid to shareholders in February of this year.

The Company maintains its debt free position with cash and physical gold holdings having a total value of approximately $15.1 million at 30th June.

Additional royalties came onstream during the year and it appears probable that an existing royalty interest of significance, Bowdens, may commence payments in 2014.

Royalty receipts have fallen slightly from approximately $8.77 million in 2009/10 to $8.55 million for the period ending 30th June 2011.

Pre tax earnings increased to $7,98 million, a rise of 41 per cent from the prior year’s results. Net profit after tax increased to $5.65 million from $2.92 million, with earnings per share lifting from 5.5 cents per share to 10.7 cents per share.

The royalty portfolio now receives income from Reefton, Mt Kelly, Mt Garnet and Red Dam, (formally known as Dagworth/Huonfels).

The principal source of income remains the Reefton royalty interest, generating 5,000 ounces of physical gold on an annualised basis.

Receipts from the Mount Garnet royalty interest increased substantially over the prior year returns and the reserve position for Mount Garnet appears highly favourable in respect of future royalty payments.

A number of fresh royalty interests were the subject of review and negotiation during the year and yet again they failed to meet benchmark requirements in terms of the quality of the underlying projects versus the cost of any proposed royalty outlay.

A further means of expanding our royalty base is through the use of exploration initiatives. Whilst progress remains slow in the Philippines, Royalco has commenced initiatives in East Africa. Other global regions were also under consideration such as Cambodia however the perceived prospectivity in that country was outweighed by various risk factors such as lack of Government transparency and tenement uncertainty.

Many countries in East Africa have experienced little in the way of modern exploration programs despite encouraging geological features. Over the past few years most have also introduced competitive mining legislation.

Royalco has initiated negotiations on a number of joint venture opportunities in Ethiopia and Uganda and is in the process of applying for tenements in its own right. The primary exploration focus will be on regions that offer substantial gold potential.

The Philippines continues to be a source of frustration to most explorers in that country, however the obvious abundance of natural resources encourages management to maintain patience. The myriad of hurdles at Federal and Provincial levels, coupled with interference from non representative NGOs and Church groups acting out of their own self interest thwart companies that value their social licence and are counter productive to that nation as a whole.
Royalco provides road maintenance, school and daycare assistance, sustainability programmes and medical missions. Activities that any responsible NGO or Church group should applaud rather than seek to curtail.

At the Gambang Project Vale completed an early drilling program on lesser targets but access has been hindered to the main Cableway Prospect by external dissidents. A number of new anti mining commissioners have now been ensconced on the regional board of the NCIP and their actions have placed fresh hurdles for activities relating to the unexplored areas elsewhere in the overall Gambang tenement.

In Nueva Viscaya it is Royalco's intention to generate exploration initiatives in a corridor of tenements spanning interpreted structures to the south west of OceanaGold's Didipio Project. The Pao tenement, which abuts Didipio, was placed in suspension in late 2009 when road access to the tenement was obstructed by anti mining factions from outside the region. Earlier this calendar year barricades were dismantled however the MGB in its wisdom at that time sought to purge its system of tenement applications and tenements where there had been no activity. Pao fell into the latter category though the Company is holding further discussions with the relevant authorities to highlight to them that they themselves suspended activities on the tenement to mitigate potential violence in the wider region!

The Yabbe tenement , which adjoins Pao to the south, falls into a different category as access to the region has not been impinged by external anti mining hordes. In this tenement systematic soil sampling and trenching is being conducted with a view to drilling suitable targets on conclusion of the wet season.

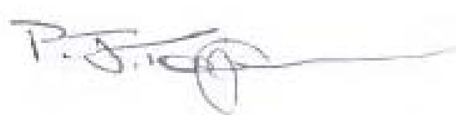
The Conwap tenement application is a conversion from a prior FTAA application. It is located further to the south of Yabbe and as with Yabbe, totally unexplored utilising modern exploration techniques.

Capital management continues to underpin the Board's decision making. Since listing on the Australian Stock Exchange in 2006 Royalco has completed two share buy back programs, provided a significant capital based return and more recently declared fully franked dividends.
The following dividend policy was announced in 2009 and remains in place:-

1. Dividends to be declared if they can be classified as fully franked.
2. Biannual payments.
3. A formula reflecting the distribution of up to 60% of after tax profits be paid as dividends.
4. The right to alter the formula in the event of unforeseen circumstances.

By adopting a sound attitude to capital management the Company is less distracted by knee jerk opportunism in chasing the latest commodity fad in the "hottest'' locations, merely to satiate the requirements of short term traders.

In summary, Royalco remains a focussed player in the resources sector with a strong financial footing and a clear objective of providing commercial returns to its shareholders. The royalty portfolio offers a degree of diversity and Directors remain focussed on expanding these interests. The exploration initiatives possess strong technical merit and offer significant upside in the medium term. Our Board looks forward to further advances in the next twelve months!



Peter Topham

Executive Chairman

REVIEW OF ACTIVITIES

Royalty Interests

Project	Royalty Value Received A$	
Reefton	$	7,149,180
Mt Garnet	$	1,267,141
Mt Kelly	$	104,223
Dagworth & Huonfels	$	27,576
Total Royalties received	**$**	**8,548,120**

Royalco currently holds a total of 10 royalty interests of which four produced income during the year.

The ***Reefton*** royalty agreement with Oceana Gold Limited currently provides the major portion of Royalco's revenue. The gross amount of physical gold received during 2010/2011 was 5000 ounces.

Based on previous announcements by Oceana the reserve position at Reefton will satisfy the first part of the Royalty Agreement. The second part of the Agreement provides for additional royalties based on a percentage of production basis and are payable from any production on surrounding tenements. A fresh royalty comes into effect once a threshold of 1 million ounces is achieved from the field in total.

Oceana has advised that an aggressive exploration program including three drill rigs is currently being conducted on the surrounding tenements including the Blackwater and Big River prospects.

A separate royalty, being a 1% over riding royalty interest, applies to ***Sam's Creek***, which has an inferred resource of 770,000 ounces of gold. Oceana advised the Australian Stock Exchange in June of this year that it is reviewing development options for this project.

At ***Mt Garnet*** there is a 3% Net Smelter Return on production from the original Mt Garnet tenements. The payments due under this royalty interest can vary significantly but has normalised over the past twelve months with the adoption of continuous mining rather than selective campaign mining, as was originally the practice.

The reported reserves for ***Mt Garnet*** can be found on the operator's website (www.kagara.com.au).

The royalty at ***Mt Kelly*** is a 1% Net Smelter Return, capped at $1,000,000 in total from two separate royalty areas. At the current rate of payment this royalty will expire towards the end of 2012.

The royalty interest on the ***Dagworth & Huonfels*** tenements (now described as ***Red Dam***) has come into production in 2010/2011. The payments are obviously appreciated but the project appears to have a comparatively short minelife at this point in time.

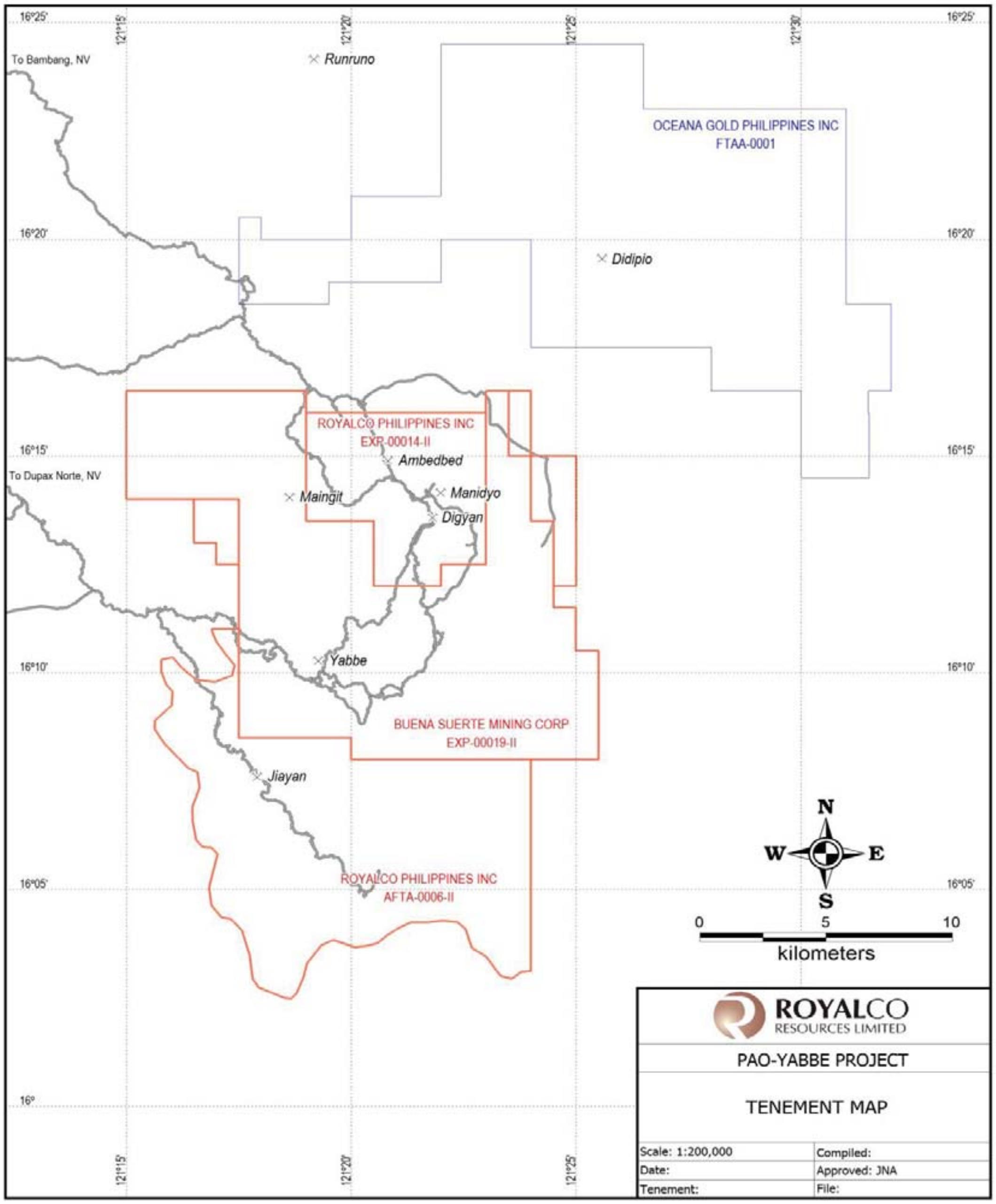
On the 1st August 2011, Kingsgate Consolidated Limited announced the purchase of the Bowdens Silver Project. As part of that announcement to the ASX and subsequent such announcements, Kingsgate suggested Bowdens could be in production by 2014. Using the broad production parameters indicated by the operator and using spot commodity prices this royalty interest has the potential to generate returns of approximately $2 million per annum over a minelife in excess of ten years.

Summary of Existing Mineral Royalty Interests

PROJECT	OPERATOR	ROYALTY	COMMODITY
Reefton (i) (ii)	Oceana Gold Limited	5000 ounces p.a. 1-3% ORR	Gold
Mt Garnet	Kagara Ltd	3% NSR	Zinc, lead, silver
Mt Kelly	C Metals Limited	1% NSR	Copper, gold
Bowden's	Kingsgate Cons	1 – 2 % NSR	Silver,lead,zinc
Stanton	Hydromet Corp Ltd	1% NSR	Nickel, cobalt
Red Dam	Deutsche Rohstoff	1.5% ORR	Gold, silver
Sam's Creek	Oceana Gold Limited	1% ORR	Gold
LFB	Alkane Exploration	3% NSR	Gold, copper
Mt Lyndhurst	Syrah Resources Ltd	1.5% NSR	Copper, uranium
Gambang	Vale Exploration Inc	1.3-1.5% NSR*	Copper, gold

ORR: Overriding Royalty
NSR: Net Smelter Return
* Subject to option exercise

Exploration - Philippines



The basis for Royalco's exploration initiatives is to generate royalties and free carried interests on a portfolio of projects. It is not necessarily the Company's ultimate intention to be the operator of any mining project. Third parties would probably be introduced to develop/mine any discovery made. Exploration activities to date have concentrated in the Philippines however other regions such as East Africa are also being pursued.

GAMBANG PROJECT

The key terms of the Option Agreement Vale S.A.that remain outstanding include:-

(i) a payment of US$5,000,000 on exercise of the option ,and;

(ii) a royalty on production varying between 1.31 % and 1.5% NSR.

Royalco Philippines Inc., Royalco's operating subsidiary in the Philippines, retains administrative responsibility for the tenement until the exercise of the option.

The second milestone payment of USD 500,000 was received earlier this year.

Diamond drilling was conducted on the Manga, Eastern Brecchia and Tokla prospects with results still pending on the bulk of the program.

Access to the main prospect, Cableway, remains an ongoing issue despite substantial community relations projects being completed.

PAO – YABBE-- CONWAP PROJECT

At Pao, the MGB has suspended the tenement lease as part of its process of cleansing a backlog of tenement applications. Discussions have been instigated with the MGB to resume exploration.

The ***Yabbe*** tenement, which lies to the south of Pao in the Province of Nueva Viscaya, has now received all formal approvals over the first phase and systematic geochemical sampling been completed over Phase 1 of the tenement.

Trenching has been implemented on a number of targets with some encouraging results generated todate. These results will be reviewed internally with the objective of selecting suitable drill targets to be advanced during the course of this financial year.

The opportunity to convert the Conwap FTAA to an exploration licence recently arose and is being advanced by the Company. As with Yabbe, Conwap has not been subjected to modern exploration and lies in what Royalco's technical team considers to be an attractive structural corridor along strike to the south west of OceanaGold's Didipio Project.

Exploration – East Africa

ETHIOPIA/UGANDA

A series of MOUs were executed earlier in 2011 covering a number of prospects in western Ethiopia. In final negotiations on some of these MOUs the vendors altered their requirements to such an extent that one MOU was subsequently cancelled with two MOUs now being progressed as well as applications in our own right using a freshly incorporated subsidiary company. In Uganda, the two MOUs under consideration were not progressed however negotiations have commenced for additional acreage in the Bude/Busia region.

The fiscal regimes in both countries are competitive and both have recent mining legislation conducive to exploration and development.

The rock sequences for all the project areas are part of the Arabian-Nubian Shield, a geologic terrain that extends from Saudi Arabia, through Egypt and Sudan southwards to Ethiopia, Uganda and Kenya. Widespread granitic batholiths and intrusive complexes disrupt these crustal-derived and younger supracrustal volcano-sedimentary sequences. The tectonic regime represents continental rifting, subsequent convergence and the development of intra-oceanic volcanic arcs and marginal basins, a fertile environment for the formation of metallic (precious and base-metal) mineral deposits.

Initial exploration activity remains focussed on precious metals and includes a review of historic geophysical data whilst the wet season in Ethiopia persists. Once finished and subject to final tenement clearances soil sampling will commence with a view to defining preliminary drill targets by the first quarter of 2012.

A local exploration manager has been appointed for the region and opportunities are now being presented for consideration on a regular basis.

Royalco Resources Limited
Directors' report
30 June 2011

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Royalco Resources Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled for the year ended 30 June 2011.

Directors

The following persons were directors of Royalco Resources Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Mr Peter Topham (Executive Chairman)
Mr David Ogg (Executive Director)
Mr Bruce Pertzel (Non-Executive Director)
Mr Chris Orchard (Non-Executive Director)
Mr Tom Eadie (Non-Executive Director - resigned 23 November 2010)

Principal activities

During the financial year the principal continuing activities of the consolidated entity consisted of:
- management of resource based royalties; and
- exploration of mineral tenements in the Philippines; and
- investigated exploration opportunities in Africa.

Dividends

Dividends paid during the financial year were as follows:

	2011 $	2010 $
Interim dividend for the year ended 30 June 2011 of 2 cents per ordinary share paid on 21 February 2011 fully franked based on a tax rate of 30%	1,054,334	-

Review of operations

The profit for the consolidated entity after providing for income tax amounted to $5,647,507 (30 June 2010: $2,919,966).

Refer to detailed review of operations preceding this Director's Report.

Significant changes in the state of affairs

The company had the following significant changes in the state of its affairs during the year :-

-all options previously issued lapsed unexercised.

There were no other significant changes in the state of affairs of the consolidated entity during the financial year.

Matters subsequent to the end of the financial year

On 5 September 2011, the Company paid a dividend of 2 cents per share, totalling $1,054,334.

On 1 August, Silver Standard Australia Pty Ltd announced the sale of its Bowdens silver project to Kingsgate. Royalco has a 2% NSR over the project until $5,000,000 whereupon the royatly falls to a 1% NSR. It is anticipated that production could commence in early 2014.

No other matter or circumstance has arisen since 30 June 2011 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations

Information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

Environmental regulation

The consolidated entity holds participating interests in a number of mining and exploration tenements. The various authorities granting such tenements require the tenement holder to comply with the terms of the grant of the tenement and all directions given to it under those terms of the tenement. There have been no known breaches of the entity's tenement conditions, and no such breaches have been notified by any government agencies during the year ended 30 June 2011.

Information on directors

Name:	Mr Peter Topham
Title:	Executive Chairman
Qualifications:	B.Ec., LLB, M.AusIMM
Experience and expertise:	From 1989 to 2000, Peter was Executive Chairman and Managing Director of Mineral Commodities Limited, for which he was responsible for rejuvenating and which, under his effective control, undertook extensive exploration in Queensland and Western Australia. Prior to becoming involved with Mineral Commodities, Peter worked in stockbroking and corporate finance with various companies including D&D Tolhurst, ANZ Capital Markets and HSBC. Peter is a Barrister and Solicitor of the Supreme Court of Victoria but does not carry on practice as such.
Other current directorships:	Nil
Former directorships (in the last 3 years):	Copper Strike Limited (resigned 9 November 2009)
Special responsibilities:	Nil
Interests in shares:	5,380,400 fully paid ordinary shares
Interests in options:	Nil

Name:	Mr David Ogg
Title:	Executie Director and Company Secretary
Qualifications:	B.Ec. M.AusIMM
Experience and expertise:	Board member since 26 March 2001. David Ogg is the principal of David Ogg & Associates Pty Ltd, which was the holder of a Financial Services Licence and provided corporate financial services. Prior to forming David Ogg & Associates Pty Ltd in 1989, David was involved in a variety of roles in the stockbroking, merchant banking and the financial services area generally. David was an executive Director of Mineral Commodities Ltd from 1994 to 2000, and is a founding Director and Company Secretary of Royalco Resources Ltd. He was also Company Secretary of Copper Strike Ltd and Syrah Resources Ltd, positions from which he resigned during the year.
Other current directorships:	Nil
Former directorships (in the last 3 years):	Nil
Special responsibilities:	Nil
Interests in shares:	3,960,400 ordinary fully paid shares
Interests in options:	Nil

Name:	Mr Bruce Pertzel
Title:	Non-Executive Director
Qualifications:	B.Sc. (Geol), Dipl. Geosci (Post Grad), F.AusIMM, MAIG, MSEG
Experience and expertise:	Bruce is the Principal of the long established geological consulting firm Pertzel Tahan & Associates Pty Ltd. He established this firm in 1982 following a ten-year engagement with Endeavour Resources Limited during which time he progressed from Project Geologist to Exploration Manager. Bruce has had widespread experience gained over 41 years in exploration activities in the Asia/Pacific region.
Other current directorships:	Nil
Former directorships (in the last 3 years):	Nil
Special responsibilities:	Nil
Interests in shares:	15,000 fully paid ordinary shares
Interests in options:	None

Name:	Chris Orchard
Title:	Non-Executive Director
Qualifications:	Mining Honours degree from Leeds University
Experience and expertise:	After graduating Chris worked in the South African mining industry. He then spent 20 years as an investment banker in the City of London specialising in the resources sector, his last roles being MD of Hambros Equity UK and a Director of RBC Dominion Securities. More recently he managed the investment operations of a private wealth management group, and he is a director and chief investment officer of Anglo Pacific Group PLC.
Other current directorships:	Nil
Former directorships (in the last 3 years):	Nil
Special responsibilities:	Nil
Interests in shares:	Nil
Interests in options:	Nil

Name:	Mr Tom Eadie
Title:	Non-Executive Director (resigned 23 November 2010)
Qualifications:	B.Sc (Hons). M.Sc., F.AusIMM, SA Fin
Experience and expertise:	Board member since 19 October 2005. Tom Eadie has been Executive Chairman of Copper Strike Ltd since its inception in 2004. In addition, he is Chairman of Syrah Resources Ltd, an exploration company associated with Copper Strike Ltd. Prior to these roles, Tom had twenty years of experience within the junior resources sector, including one year running Austminex NL, and at technical to senior executive levels with major mining companies including Pasminco, Aberfoyle Resources and Cominco. At Pasminco, he was Executive General Manager – Exploration & Technology for 11 years. At Aberfoyle, he began as Chief Geophysicist before being put in charge of all mineral sands and base metal exploration. He is a past board member of the Australasian Institute of Mining and Metallurgy and the Australian Mineral Industry Research Association.
Other current directorships:	Copper Strike Limited (since 30 March 2004) and Syrah Resources Limited (since 4 May 2007)
Former directorships (in the last 3 years):	N/A
Special responsibilities:	N/A
Interests in shares:	N/A
Interests in options:	N/A

'Former directorships (in the last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships in all other types of entities, unless otherwise stated.

Meetings of directors

The number of meetings of the company's Board of Directors held during the year ended 30 June 2011, and the number of meetings attended by each director were:

	Full Board	
	Attended	Held
Mr Peter Topham	5	5
Mr David Ogg	5	5
Mr Bruce Pertzel	5	5
Mr Chris Orchard	4	5
Mr Tom Eadie *	1	2

Held: represents the number of meetings held during the time the director held office.

* resigned on 23 November 2010.

Remuneration report (audited)

The remuneration report, which has been audited, outlines the director and executive remuneration arrangements for the consolidated entity and the company, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

The remuneration report is set out under the following main headings:

A Principles used to determine the nature and amount of remuneration
B Details of remuneration
C Service agreements
D Share-based compensation
E Additional information

A Principles used to determine the nature and amount of remuneration

The objective of the consolidated entity's and company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and conforms with the market best practice for delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- alignment of executive compensation
- transparency

The Board is responsible for determining and reviewing remuneration arrangements for its directors and executives. The performance of the consolidated entity and company depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

The Board has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the consolidated entity and company.

Alignment to shareholders' interests:

- has economic profit as a core component of plan design
- focuses on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant or increasing return on assets as well as focusing the executive on key non-financial drivers of value
- attracts and retains high calibre executives

Alignment to program participants' interests:

- rewards capability and experience
- reflects competitive reward for contribution to growth in shareholder wealth
- provides a clear structure for earning rewards

In accordance with best practice corporate governance, the structure of non-executive directors and executive remunerations are separate.

Non-executive directors remuneration

Non-executive Directors’ fees are paid within an aggregate limit which is approved by the shareholders from time to time. Retirement payments, if any, are agreed to be determined in accordance with the rules set out in the Corporations Act at the time of the Directors retirement or termination. Non-Executive Directors remuneration may include an incentive portion consisting of bonuses and/or options, as considered appropriate by the Board, which may be subject to shareholder approval in accordance with the ASX Listing Rules.

ASX listing rules requires that the aggregate non-executive directors remuneration shall be determined periodically by a general meeting. The most recent determination was at the Annual General Meeting held on 16 May 2009, where the shareholders approved an aggregate remuneration of $300,000.

Executive remuneration

In determining the level and make-up of executive remuneration, the Board negotiates a remuneration to reflect the market salary for a position and individual of comparable responsibility and experience. Due to the limited size of the Company and of its operations and financial affairs, the use of a separate remuneration committee is not considered appropriate. Remuneration is regularly compared with the external market by participation in industry salary surveys and during recruitment activities generally. If required, the Board may engage an external consultant to provide independent advice in the form of a written report detailing market levels of remuneration for comparable executive roles.

The executive remuneration and reward framework has two components

- Fixed remuneration
- Long term incentive portion as deemed appropriate.

All executives are eligible to receive a base salary (which is based on factors such as experience and comparable industry information), fringe benefits, options, and performance incentives. The Board reviews the Executive Chairman's remuneration package, and the Executive Chairman reviews the senior executives' remuneration packages, annually by reference to the Company's performance, executive performance and comparable information within the industry.

The performance of executives is measured against criteria agreed annually with each executive and is based predominantly on the overall success of the Company in achieving its broader corporate goals. Bonuses and incentives are linked to predetermined performance criteria. The Board may, however, exercise its discretion in relation to approving incentives, bonuses, and options, and can require changes to the Executive Chairman's recommendations. This policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

Directors, executives , staff and specialist consultants who are involved with the business may be invited to participate in the EIOS.

Australian-resident Directors or executives receive a Company paid superannuation contribution, which is currently 9-11% of their cash compensation, and do not receive any other retirement benefits (except salary sacrifice superannuation which is at the discretion of the employee).

All remuneration paid to Directors and executives is valued at the cost to the Company and expensed. Options are valued using the Black-Scholes methodology.

Employee option share plan

Royalco Resources Limited operates an ownership-based scheme for executives and senior employees of the consolidated entity. In accordance with the provisions of the plan, as approved by shareholders at a previous annual general meeting, executives and senior employees may be granted options to purchase parcels of ordinary shares at an exercise price determined by the Board. Each employee share option converts into one ordinary share in Royalco Resources Limited on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

The number of options granted is determined by the Board.

The purpose of the plan is to provide eligible employees with an incentive to remain with the Company and to improve the longer term performance of the Company and its return to shareholders. It is intended that the plan will enable the Company to retain and attract skilled and experienced employees and provide them with the motivation to make the Company more successful.

No options were issued during the year. All previously issued options expired unexercised in March 2011.

B Details of remuneration

Amounts of remuneration

Details of the remuneration of the directors, other key management personnel (defined as those who have the authority and responsibility for planning, directing and controlling the major activities of the consolidated entity) and specified executives of Royalco Resources Limited are set out in the following tables.

2011	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
Name	Cash salary and fees $	Bonus $	Non-monetary $	Super-annuation $	Long service leave $	Equity-settled $	Total $
Non-Executive Directors:							
Mr B Pertzel	38,150	-	-	-	-	-	38,150
Mr C Orchard	38,150	-	-	-	-	-	38,150
Mr T Eadie *	14,585	-	-	-	-	-	14,585
Executive Directors:							
Mr P Topham	280,428	-	-	50,000	13,460	-	343,888
Mr D Ogg	133,568	-	-	50,000	7,557	-	191,125
Other Key Management Personnel:							
Mr N Boicos **	60,000	-	-	-	-	-	60,000
	564,881	-	-	100,000	21,017	-	685,898

* resigned 23 November 2010
** appointed joint company secretary on 12 January 2011

2010	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
Name	Cash salary and fees $	Bonus $	Non-monetary $	Super-annuation $	Long service leave $	Equity-settled $	Total $
Non-Executive Directors:							
M T Eadie	35,000	-	-	3,150	-	-	38,150
Mr C Orchard	29,093	-	-	-	-	-	29,093
Mr B Pertzel	38,150	-	-	-	-	-	38,150
Executive Directors:							
Mr P Topham	283,500	-	-	31,185	3,458	-	318,143
Mr D Ogg	146,745	-	-	50,000	1,862	-	198,607
	532,488	-	-	84,335	5,320	-	622,143

C Service agreements

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

Name:	Mr Peter Topham
Title:	Executive Chairman
Agreement commenced:	1 July 2005
Term of agreement:	
Details:	• Mr Topham may resign from his position and thus terminate this contract by giving 3 months written notice. • The Company may terminate this employment agreement following 24 months from the date of the Agreement by providing 12 months written notice. • The Company may terminate the contact at any time without notice if serious misconduct has occurred. Where termination with cause occurs the Managing Director is only entitled to that portion of remuneration which is fixed, and only up to the date of termination. • On termination of the agreement Mr Topham will be entitled to be paid those outstanding amounts owing to him up until the Termination Date.

Name:	Mr David Ogg
Title:	Executive Director
Agreement commenced:	1 July 2005
Details:	• Mr Ogg may resign from his position and thus terminate this contract by giving 3 months written notice. • The Company may terminate this employment agreement following 24 months from the date of the Agreement by providing 12 months written notice. • The Company may terminate the contact at any time without notice if serious misconduct has occurred. Where termination with cause occurs the Managing Director is only entitled to that portion of remuneration which is fixed, and only up to the date of termination. • On termination of the agreement Mr Topham will be entitled to be paid those outstanding amounts owing to him up until the Termination Date.

Key management personnel have no entitlement to termination payments in the event of removal for misconduct.

D Share-based compensation

Issue of shares
There were no shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2011.

Options
There were no options issued to directors and other key management personnel as part of compensation that were outstanding as at 30 June 2011.

There were no options granted to or exercised by directors and other key management personnel as part of compensation during the year ended 30 June 2011.

Values of options over ordinary shares granted, exercised and lapsed for directors and other key management personnel during the year ended 30 June 2011 are set out below:

Name	Value of options granted during the year $	Value of options exercised during the year $	Value of options lapsed during the year $	Remuneration consisting of options for the year %
Mr Peter Topham	-	-	258,734	-
Mr David Ogg	-	-	181,113	-
Mr Bruce Pertzel	-	-	31,290	-

E Additional information

The earnings of the consolidated entity for the five years to 30 June 2011 are summarised below:

	2007 $	2008 $	2009 $	2010 $	2011 $
Sales revenue	765,412	1,565,866	8,263,802	9,739,095	9,691,676
Profit/(loss) before tax	(1,657,468)	(400,724)	4,783,326	5,681,258	7,982,644
Profit/(loss) after tax	(1,469,938)	(390,747)	2,692,951	2,919,966	5,647,507

The factors that are considered to affect total shareholders return (TSR) are summarised below:

	2007	2008	2009	2010	2011
Share price at financial year end ($A)	0.78	0.27	0.27	0.33	0.39
Total dividends declared (cents per share) *	-	-	-	10.00	2.00
Basic earnings per share (cents per share)	(7.49)	(2.61)	5.08	5.54	10.71
Diluted earnings per share (cents per share)	(6.94)	(2.46)	4.75	5.18	10.19

* a 10 cent a share capital distribution was paid in the 2010 financial year.

This concludes the remuneration report, which has been audited.

Shares under option
There were no options outstanding as at 30 June 2011.

Shares issued on the exercise of options
There were no shares of Royalco Resources Limited issued on the exercise of options during the year ended 30 June 2011.

Indemnity and insurance of officers
The company has indemnified the directors of the company for costs incurred, in their capacity as a director, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the company has not paid a premium in respect of a contract to insure the directors of the company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of liability and the amount of the premium.

Indemnity and insurance of auditor
The company has not otherwise, during or since the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

During the financial year, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

Proceedings on behalf of the company
No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

Non-audit services
There were no non-audit services provided during the financial year by the auditor.

Officers of the company who are former audit partners of Leydin Freyer Audit Pty Ltd
There are no officers of the company who are former audit partners of Leydin Freyer Audit Pty Ltd.

Auditor's independence declaration
A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on the following page.

Auditor
Leydin Freyer Audit Pty Ltd continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors

____
Peter Topham
Executive Chairman

28 September 2011
Melbourne

LeydinFreyer

Suite 304, 22 St Kilda Road, St Kilda, Vic. 3182

Telephone: +613 9692 7222
Facsimile: +613 9529 8057

email: admin@leydinfreyer.com.au

AUDITOR’S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

To the Directors of Royalco Resources Limited:

I declare that to the best of my knowledge and belief, in relation to the independent audit for the year ended 30 June 2011, there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and

(ii) no contraventions of any applicable code of professional conduct in relation to the review.

LOREN DATT
Registered Company Auditor
Registration: 339204

28 September 2011

Royalco Resources Limited
Financial report
For the year ended 30 June 2011

Contents

General information

The financial report covers Royalco Resources Limited as a consolidated entity consisting of Royalco Resources Limited and the entities it controlled. The financial report is presented in Australian dollars, which is Royalco Resources Limited's functional and presentation currency.

The financial report consists of the financial statements, notes to the financial statements and the directors' declaration.

Royalco Resources Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 1
394-396 Little Bourke Street
Melbourne Victoria 3000

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial report.

The financial report was authorised for issue, in accordance with a resolution of directors, on 28 September 2011. The directors have the power to amend and reissue the financial report.

Royalco Resources Limited
Statement of comprehensive income
For the year ended 30 June 2011

	Note	Consolidated 2011 $	Consolidated 2010 $
Revenue	4	9,691,676	9,739,095
Expenses			
Administrative costs		(721,163)	(627,899)
Employee benefits expense		(782,141)	(795,011)
Depreciation and amortisation expense	5	(21,083)	(11,463)
Exploration expenditure written off		(112,927)	(2,541,248)
Amortisaton of royalty rights		(71,718)	(82,216)
Profit before income tax expense		7,982,644	5,681,258
Income tax expense	6	(2,335,137)	(2,761,292)
Profit after income tax expense for the year attributable to the owners of Royalco Resources Limited		5,647,507	2,919,966
Other comprehensive income			
Foreign currency translation		68,365	201,215
Other comprehensive income for the year, net of tax		68,365	201,215
Total comprehensive income for the year attributable to the owners of Royalco Resources Limited		5,715,872	3,121,181
		Cents	**Cents**
Basic earnings per share	36	10.71	5.54
Diluted earnings per share	36	10.19	5.18

The above statement of comprehensive income should be read in conjunction with the accompanying notes

Royalco Resources Limited
Statement of financial position
As at 30 June 2011

	Note	Consolidated 2011 $	2010 $
Assets			
Current assets			
Cash and cash equivalents	7	13,772,764	7,112,774
Trade and other receivables	8	978,221	980,084
Financial assets at fair value through profit or loss	9	1,510,302	4,228,567
Other	10	2,068	4,803
Total current assets		16,263,355	12,326,228
Non-current assets			
Receivables	11	488,839	316,713
Property, plant and equipment	12	20,164	37,414
Intangibles	13	512,020	583,738
Exploration and evaluation	14	3,498,148	2,840,605
Deferred tax	15	106,602	69,235
Other	16	81,088	76,121
Total non-current assets		4,706,861	3,923,826
Total assets		20,970,216	16,250,054
Liabilities			
Current liabilities			
Trade and other payables	17	54,020	83,515
Income tax	18	700,254	960,107
Employee benefits	19	188,707	142,070
Other	20	691,713	572,421
Total current liabilities		1,634,694	1,758,113
Non-current liabilities			
Deferred tax	21	824,896	648,178
Employee benefits	22	201,958	196,633
Total non-current liabilities		1,026,854	844,811
Total liabilities		2,661,548	2,602,924
Net assets		18,308,668	13,647,130
Equity			
Contributed equity	23	12,321,611	12,321,611
Reserves	24	(361,807)	246,269
Retained profits		6,348,864	1,079,250
Total equity		18,308,668	13,647,130

The above statement of financial position should be read in conjunction with the accompanying notes

Royalco Resources Limited
Statement of changes in equity
For the year ended 30 June 2011

	Contributed Equity $	Options Reserve $	Foreign Currency Reserve $	Retained Earnings $	Total equity $
Consolidated					
Balance at 1 July 2009	17,593,031	676,441	(631,387)	(1,840,716)	15,797,369
Other comprehensive income for the year, net of tax	-	-	201,215	-	201,215
Profit after income tax expense for the year	-	-	-	2,919,966	2,919,966
Total comprehensive income for the year	-	-	201,215	2,919,966	3,121,181
Transactions with owners in their capacity as owners:					
Capital distribution	(5,271,420)	-	-	-	(5,271,420)
Balance at 30 June 2010	12,321,611	676,441	(430,172)	1,079,250	13,647,130

	Contributed Equity $	Options Reserve $	Foreign Currency Reserves $	Retained Earnings $	Total equity $
Consolidated					
Balance at 1 July 2010	12,321,611	676,441	(430,172)	1,079,250	13,647,130
Other comprehensive income for the year, net of tax	-	-	68,365	-	68,365
Profit after income tax expense for the year	-	-	-	5,647,507	5,647,507
Total comprehensive income for the year	-	-	68,365	5,647,507	5,715,872
Transactions with owners in their capacity as owners:					
Lapse of options		(676,441)	-	676,441	-
Dividends paid		-	-	(1,054,334)	(1,054,334)
Balance at 30 June 2011	12,321,611	-	(361,807)	6,348,864	18,308,668

The above statement of changes in equity should be read in conjunction with the accompanying notes

Royalco Resources Limited
Statement of cash flows
For the year ended 30 June 2011

	Note	Consolidated 2011 $	Consolidated 2010 $
Cash flows from operating activities			
Payments to suppliers and employees (inclusive of GST)		(1,173,371)	(1,320,243)
Interest received		522,241	352,001
Royalties received		1,485,217	1,357,116
Income taxes paid		(1,787,606)	-
Net cash from/(used in) operating activities	35	(953,519)	388,874
Cash flows from investing activities			
Payments for property, plant and equipment	12	(3,833)	(303)
Payments for exploration and evaluation	14	(702,105)	(585,733)
Deposits received for farm out of tenements		559,474	572,421
Proceeds from sale of investments		368,552	-
Proceeds from sale of financial assets		8,450,722	4,697,879
Payment for deposits		(4,967)	-
Net cash from investing activities		8,667,843	4,684,264
Cash flows from financing activities			
Payment of capital distribution		-	(5,271,420)
Payment of dividend		(1,054,334)	-
Net cash used in financing activities		(1,054,334)	(5,271,420)
Net increase/(decrease) in cash and cash equivalents		6,659,990	(198,282)
Cash and cash equivalents at the beginning of the financial year		7,112,774	7,311,056
Cash and cash equivalents at the end of the financial year	7	13,772,764	7,112,774

The above statement of cash flows should be read in conjunction with the accompanying notes

Note 1. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New, revised or amending Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 32.

Note 1. Significant accounting policies (continued)

Principles of consolidation
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Royalco Resources Limited ('company' or 'parent entity') as at 30 June 2011 and the results of all subsidiaries for the year then ended. Royalco Resources Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The effects of potential exercisable voting rights are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. Refer to the 'business combinations' accounting policy for further details. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Operating segments
Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Foreign currency translation
The financial report is presented in Australian dollars, which is Royalco Resources Limited's functional and presentation currency.

Foreign currency transactions
Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations
The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximates the rate at the date of the transaction, for the period. All resulting foreign exchange differences are recognised in the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

Note 1. Significant accounting policies (continued)

Revenue recognition
Revenue is recognised when it is probable that the economic benefit will flow to the consolidated entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Royalties

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably). Royalties determined on a time basis are recognised on a straight-line basis over the period of the agreement. Royalty arrangements that are based on production, sales and other measures are recognised by reference to the underlying arrangement.

Royalties paid in gold are measured at the market rate at the time of recognition.

Interest
Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other revenue
Other revenue is recognised when it is received or when the right to receive payment is established.

Income tax
The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and unused tax losses and under and over provision in prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entity's which intend to settle simultaneously.

Note 1. Significant accounting policies (continued)

Cash and cash equivalents
Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Trade and other receivables
Other receivables are recognised at amortised cost, less any provision for impairment. Royalties payable in gold are recognised at the market rate at the end of the period.

Investments and other financial assets
Investments and other financial assets are measured at either amortised cost or fair value depending on their classification. Classification is determined based on the purpose of the acquisition and subsequent reclassification to other categories is restricted. The fair values of quoted investments are based on current bid prices. For unlisted investments, the consolidated entity establishes fair value by using valuation techniques. These include the use of recent arms length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the asset is derecognised or impaired.

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss are either: i) held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit; or ii) designated as such upon initial recognition, where they are managed on a fair value basis or to eliminate or significantly reduce an accounting mis-match. Except for effective hedging instruments, derivatives are also categorised as fair value through profit or loss. Fair value movements are recognised in profit or loss.

Impairment of financial assets
The consolidated entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence includes significant financial difficulty of the issuer or obligor; a breach of contract such as default or delinquency in payments; the lender granting to a borrower concessions due to economic or legal reasons that the lender would not otherwise do; it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for the financial asset; or observable data indicating that there is a measurable decrease in estimated future cash flows.

The amount of the impairment allowance for loans and receivables carried at amortised cost is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. If there is a reversal of impairment, the reversal can not exceed the amortised cost that would have been had the impairment not been recognised and is reversed to profit or loss.

The amount of the impairment allowance for financial assets carried at cost is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for similar financial assets.

Note 1. Significant accounting policies (continued)

Property, plant and equipment
Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

Plant and equipment	3 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements and plant and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

Intangible assets
Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangibles are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Goodwill
Where an entity or operation is acquired in a business combination, the identifiable net assets acquired are measured at fair value. The excess of the fair value of the cost of the acquisition over the fair value of the identifiable net assets acquired is brought to account as goodwill. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

Software
Significant costs associated with software are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 5 years.

Royalty Rights
Royalty rights acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Exploration and evaluation assets
Exploration and evaluation expenditure in relation to separate areas of interest for which rights of tenure are current is carried forward as an asset in the statement of financial position where it is expected that the expenditure will be recovered through the successful development and exploitation of an area of interest, or by its sale; or exploration activities are continuing in an area and activities have not reached a stage which permits a reasonable estimate of the existence or otherwise of economically recoverable reserves. Where a project or an area of interest has been abandoned, the expenditure incurred thereon is written off in the year in which the decision is made.

Note 1. Significant accounting policies (continued)

Impairment of non-financial assets
Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Trade and other payables
These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Employee benefits

Wages and salaries, annual leave and sick leave
Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Non-accumulating sick leave is expensed to profit or loss when incurred.

Long service leave
The liability for long service leave is recognised in current and non-current liabilities, depending on the unconditional right to defer settlement of the liability for at least 12 months after the reporting date. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Defined contribution superannuation expense
Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

Note 1. Significant accounting policies (continued)

Share-based payments
Equity-settled and cash-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

The cost of cash-settled transactions is initially, and at each reporting date until vested, determined by applying either the Binomial or Black-Scholes option pricing model, taking into consideration the terms and conditions on which the award was granted. The cumulative charge to profit or loss until settlement of the liability is calculated as follows:
- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Contributed equity
Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Note 1. Significant accounting policies (continued)

Dividends

Dividends are recognised when declared during the financial year and no longer at the discretion of the company.

Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Royalco Resources Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2011. The consolidated entity has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

Note 2. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Note 2. Critical accounting judgements, estimates and assumptions (continued)

Share-based payment transactions
The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Fair value and hierarchy of financial instruments
The consolidated entity is required to classify financial instruments, measured at fair value, using a three level hierarchy, being: Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs). An instrument is required to be classified in its entirety on the basis of the lowest level of valuation inputs that is significant to fair value. Considerable judgement is required to determine what is significant to fair value and therefore which category the financial instrument is placed in can be subjective.

The fair value of financial instruments classified as level 3 is determined by the use of valuation models. These include discounted cash flow analysis or the use of observable inputs that require significant adjustments based on unobservable inputs.

Estimation of useful lives of assets
The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and definite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Goodwill and other indefinite life intangible assets
The consolidated entity tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 1. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

Income tax
The consolidated entity is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The consolidated entity recognises liabilities for anticipated tax audit issues based on the consolidated entity's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Recovery of deferred tax assets
Deferred tax assets are recognised for deductible temporary differences only if the consolidated entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Note 2. Critical accounting judgements, estimates and assumptions (continued)

Long service leave provision
As discussed in note 1, the liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

Exploration and evaluation assets
At each reporting date the directors review the carrying value of all tenements for indicators impairment, and losses are recognised where deemed necessary.

Note 3. Operating segments

Identification of reportable operating segments
The consolidated entity is organised into two operating segments: management of resource based royalties and exploration activities. These operating segments are based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

The CODM reviews both adjusted earnings before interest, tax, depreciation and amortisation (segment result) and profit before income tax.

The information reported to the CODM is on at least a monthly basis.

Refer below for a brief descritpion of each segment

Royalty Management	manages a portfolio of resource based based royalty rights held in Australia and New Zealand.
Exploration	explores mineral tenements in the Philippines

Intersegment receivables, payables and loans
Intersegment loans are initially recognised at the consideration received. Intersegment loans receivable and loans payable that earn or incur non-market interest are not adjusted to fair value based on market interest rates. Intersegment loans are eliminated on consolidation.

Note 3. Operating segments (continued)

Operating segment information

2011	Royalty Management $	Exploration $	Intersegment eliminations/ unallocated $	Consolidated $
Revenue				
Sales to external customers	8,545,120	440,182	706,374	9,691,676
Total sales revenue	8,545,120	440,182	706,374	9,691,676
Total revenue	8,545,120	440,182	706,374	9,691,676
Segment result	7,781,681	440,182	(32,763)	8,189,100
Depreciation and amortisation	-		(21,803)	(21,803)
Impairment of assets	-	-	(112,927)	(112,927)
Amortisation of royatly rights	(71,726)	-	-	(71,726)
Profit/(loss) before income tax expense	7,709,955	440,182	(167,493)	7,982,644
Income tax expense				(2,335,137)
Profit after income tax expense				5,647,507
Assets				
Segment assets	2,785,300	3,498,148	14,686,768	20,970,216
Total assets				20,970,216
Liabilities				
Segment liabilities	-	691,713	1,969,835	2,661,548
Total liabilities				2,661,548

Note 3. Operating segments (continued)

2010	Royalty Management $	Exploration $	Intersegment eliminations/ unallocated $	Consolidated $
Revenue				
Sales to external customers	8,769,457	-	969,638	9,739,095
Total sales revenue	8,769,457	-	969,638	9,739,095
Total revenue	8,769,457	-	969,638	9,739,095
Segment result	8,769,430	-	(453,245)	8,316,185
Depreciation and amortisation	-	-	(11,463)	(11,463)
Exploration written off	-	(2,541,248)	-	(2,541,248)
Amortisation of royalty rights	(82,216)	-	-	(82,216)
Profit/(loss) before income tax expense	8,687,214	(2,541,248)	(464,708)	5,681,258
Income tax expense				(2,761,292)
Profit after income tax expense				2,919,966
Assets				
Segment assets	1,032,876	3,292,173	11,925,005	16,250,054
Total assets				16,250,054
Liabilities				
Segment liabilities	-	572,421	2,030,503	2,602,924
Total liabilities				2,602,924

Note 4. Revenue

	Consolidated 2011 $	Consolidated 2010 $
Sales revenue		
Royalty	8,548,120	8,769,457
Option fee received on Filipino tenements	440,182	-
	8,988,302	8,769,457
Other revenue		
Interest	580,227	371,108
Other revenue	123,147	598,530
	703,374	969,638
Revenue	9,691,676	9,739,095

Note 5. Expenses

	Consolidated	
	2011	**2010**
	$	**$**
Profit before income tax includes the following specific expenses:		
Depreciation		
Plant and equipment	21,083	2,817
Amortisation		
Software	-	8,646
Royalty rights	71,726	82,216
Total amortisation	71,726	90,862
Total depreciation and amortisation	92,809	93,679
Net fair value loss		
Net fair value loss on available-for-sale financial assets		479,502
Net loss on disposal		
Net loss on disposal of investments	-	119,028
Superannuation expense		
Defined contribution superannuation expense	101,313	84,355
Employee benefits expense		
Employee benefits expense	336,244	163,760

Note 6. Income tax expense

	Consolidated 2011 $	Consolidated 2010 $
Income tax expense		
Current tax	2,195,532	2,233,741
Deferred tax	127,605	351,987
Under provision in prior years	12,000	175,564
Aggregate income tax expense	2,335,137	2,761,292
Deferred tax included in income tax expense comprises:		
Increase in deferred tax assets (note 15)	(37,367)	(66,404)
Increase in deferred tax liabilities (note 21)	164,972	418,391
	127,605	351,987
Numerical reconciliation of income tax expense to prima facie tax payable		
Profit before income tax expense	7,982,644	5,681,258
Tax at the Australian tax rate of 30%	2,394,793	1,704,377
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Entertainment expenses	9,220	9,404
Non-taxable dividends	-	111,439
Foreign exchange loss (gains) losses and translation	(41,442)	792,152
Foreign loss of subsidiary not recognised	(32,088)	(20,340)
Loss (Gain) on sale or revalaution of investments	(7,346)	(11,304)
	2,323,137	2,585,728
Under provision in prior years	12,000	175,564
Income tax expense	2,335,137	2,761,292
Amounts charged directly to equity		
Deferred tax liabilities (note 21)	-	54,127

Note 7. Current assets - cash and cash equivalents

	Consolidated 2011 $	Consolidated 2010 $
Cash at bank	1,093,323	2,136,475
Cash on deposit	12,679,441	4,976,299
	13,772,764	7,112,774

Note 8. Current assets - trade and other receivables

	Consolidated 2011 $	Consolidated 2010 $
Other receivables	98,693	78,460
Royalties receivable	787,092	867,174
Interest receivable	92,436	34,450
	978,221	980,084

All royalties receivable have been received within agreed terms during the year and since year end.

Note 9. Current assets - financial assets at fair value through profit or loss

	Consolidated 2011 $	Consolidated 2010 $
Ordinary shares - designated at fair value through profit or loss	-	160,000
Gold assets - designated at fair value through the profit or loss	1,510,302	4,048,567
Unlisted shares - designated at fair value through profit or loss	-	20,000
	1,510,302	4,228,567

Refer to note 26 for detailed information on financial instruments.

During the year the company sold all of its listed shares at a profit of $5,083

During the year company all of its unlisted shares at a profit of $183,469.

Note 10. Current assets - other

	Consolidated 2011 $	Consolidated 2010 $
Prepayments	2,068	4,803

Note 11. Non-current assets - receivables

	Consolidated 2011 $	Consolidated 2010 $
Royalty receivable	488,626	316,713
Other receivables	213	-
	488,839	316,713

In October 2008 the Company reached a settlement of a legal dispute with Oceana Gold (NZ) over the Reefton Royalty. As part of this settlement Royalco are entitled to 500 ounces in October 2012.

The directors have determined that this should be recognised over 4 years from October 2008 to October 2012.

Note 12. Non-current assets - property, plant and equipment

	Consolidated 2011 $	Consolidated 2010 $
Plant and equipment - at cost	320,508	363,919
Less: Accumulated depreciation	(300,344)	(326,505)
	20,164	37,414
	20,164	37,414

Reconciliations
Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Plant & Equip $	Total $
Consolidated		
Balance at 1 July 2009	39,928	39,928
Additions	303	303
Depreciation expense	(2,817)	(2,817)
Balance at 30 June 2010	37,414	37,414
Exchange differences	3,833	3,833
Depreciation expense	(21,083)	(21,083)
Balance at 30 June 2011	20,164	20,164

Note 13. Non-current assets - intangibles

	Consolidated 2011 $	Consolidated 2010 $
Goodwill - at cost	418,035	418,035
	418,035	418,035
Software - at cost	35,245	35,245
Less: Accumulated amortisation	(35,245)	(35,245)
	-	-
Royalty rights - at cost	319,738	319,738
Less: Accumulated amortisation	(225,753)	(154,035)
	93,985	165,703
	512,020	583,738

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Royalty Rights $	Goodwill $	Total $
Consolidated			
Balance at 1 July 2009	247,919	418,035	665,954
Amortisation expense	(82,216)	-	(82,216)
Balance at 30 June 2010	165,703	418,035	583,738
Amortisation expense	(71,718)	-	(71,718)
Balance at 30 June 2011	93,985	418,035	512,020

The Company assessed the recoverable amount of goodwill and determined that the goodwill associated with the consolidated entity's exploration expenditure in the Philippines (representing 100%) was not impaired.

Note 14. Non-current assets - exploration and evaluation

	Consolidated 2011 $	Consolidated 2010 $
Exploration and evaluation assets	3,498,148	2,840,605
	3,498,148	2,840,605
	3,498,148	2,840,605

Note 14. Non-current assets - exploration and evaluation (continued)

Reconciliations
Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Exploration $	Total $
Consolidated		
Balance at 1 July 2009	4,595,531	4,595,531
Additions	585,733	585,733
Exchange differences	200,589	200,589
Write off of assets	(2,541,248)	(2,541,248)
Balance at 30 June 2010	2,840,605	2,840,605
Additions	770,470	770,470
Write off of assets	(112,927)	(112,927)
Balance at 30 June 2011	3,498,148	3,498,148

Note 15. Non-current assets - deferred tax

	Consolidated	
	2011 **$**	**2010** **$**
The balance comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Employee benefits	82,495	62,139
Accrued expenses	6,600	6,600
Property, plant and equipment	619	496
Royalty rights	6,876	-
Available for sale financial assets - gold	10,012	-
Deferred tax asset	106,602	69,235
Deferred tax asset to be recovered after more than 12 months	106,602	69,235
Movements:		
Opening balance	69,235	2,831
Credited to profit or loss (note 6)	37,367	66,404
Closing balance	106,602	69,235

Note 16. Non-current assets - other

	Consolidated	
	2011	2010
	$	$
Security deposits	81,088	76,121

Note 17. Current liabilities - trade and other payables

	Consolidated	
	2011	2010
	$	$
Trade payables	54,020	83,515

Refer to note 26 for detailed information on financial instruments.

Note 18. Current liabilities - income tax

	Consolidated	
	2011	2010
	$	$
Provision for income tax	700,254	960,107

Note 19. Current liabilities - employee benefits

	Consolidated	
	2011	2010
	$	$
Annual leave	188,707	142,070

Note 20. Current liabilities - other

	Consolidated	
	2011	2010
	$	$
Deferred revenue	691,713	572,421

During the 2010 financial year Royalco Philippines Inc received an option fee in relation to the sale of a tenement of $US531,000. During the current year the Company received another $US 500,000. Under the agreement the Company can sell its right to the tenement in question for $US3,999,969 at the discretion of the purchasor at any time until April 2013. During this three year period the purchasor has sole access to the tenement. The directors believe that this option fee in essence represents a lease over the temement and as such the option fee is being recognised on a straight line basis over the three option period.

Note 21. Non-current liabilities - deferred tax

	Consolidated	
	2011	2010
	$	$
The balance comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Exploration expenditure	414,450	169,936
Royalty rights	-	(1,822)
Interest receivable	27,731	10,335
Royalty receivable	382,715	355,157
Available for sale financial assets - gold	-	114,476
Other	-	96
Deferred tax liability	824,896	648,178
Deferred tax liability to be settled after more than 12 months	824,896	648,178
Movements:		
Opening balance	648,178	-
Charged to profit or loss (note 6)	164,972	418,391
Charged to equity	-	54,127
Prior year under/over provision	11,746	175,660
Closing balance	824,896	648,178

Note 22. Non-current liabilities - employee benefits

	Consolidated	
	2011	2010
	$	$
Long service leave	201,958	196,633

Note 23. Equity - contributed

	Consolidated		Consolidated	
	2011	2010	2011	2010
	Shares	Shares	$	$
Ordinary shares - fully paid	52,714,183	52,714,183	12,321,611	12,321,611

Note 23. Equity - contributed (continued)

Movements in ordinary share capital

Details	Date	No of shares	Issue price	$
Balance	1 July 2009	52,714,183		17,593,031
Capital distribution (10cs a share)	16 June 2010	-	$0.00	(5,271,420)
Balance	30 June 2010	52,714,183		12,321,611
Balance	30 June 2011	52,714,183		12,321,611

Ordinary shares
Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Share buy-back
There is no current on-market share buy-back.

Capital risk management
The consolidated entity's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The consolidated entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current parent entity's share price at the time of the investment. The consolidated entity is not actively pursuing additional investments in the short term as it continues to integrate and grow its existing businesses in order to maximise synergies.

The capital risk management policy remains unchanged from the 30 June 2010 Annual Report.

Note 24. Equity - reserves

	Consolidated	
	2011	2010
	$	$
Foreign currency reserve	(361,807)	(430,172)
Share-based payments reserve	-	676,441
	(361,807)	246,269

Note 24. Equity - reserves (continued)

	Foreign currency $	Share based payments $	Total $
Consolidated			
Balance at 1 July 2009	(631,387)	676,441	45,054
Net investment hedge	201,215	-	201,215
Balance at 30 June 2010	(430,172)	676,441	246,269
Lapse of options	68,365	(676,441)	(608,076)
Balance at 30 June 2011	(361,807)	-	(361,807)

Foreign currency reserve
The reserve is used to recognise exchange differences arising from translation of the financial statements of foreign operations to Australian dollars. It is also used to recognise gains and losses on hedges of the net investments in foreign operations.

Share-based payments reserve
The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

Note 25. Equity - dividends

Dividends

	Consolidated 2011 $	Consolidated 2010 $
Interim dividend for the year ended 30 June 2011 of 2 cents per ordinary share paid on 21 February 2011 fully franked based on a tax rate of 30%	1,054,334	

Franking credits

	Consolidated 2011 $	Consolidated 2010 $
Franking credits available at the reporting date based on a tax rate of 30%	1,389,677	-
Franking credits available for subsequent financial years based on a tax rate of 30%	1,389,677	-
Franking debits that will arise from the payment of dividends declared subsequent to the reporting date based on a tax rate of 30%	(451,857)	-
Net franking credits available based on a tax rate of 30%	937,820	-

Note 26. Financial instruments

Financial risk management objectives

The consolidated entity's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity. The consolidated entity uses derivative financial instruments such as forward foreign exchange contracts to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. The consolidated entity uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, ageing analysis for credit risk and beta analysis in respect of investment portfolios to determine market risk.

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors ('Board'). These policies include identification and analysis of the risk exposure of the consolidated entity and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the consolidated entity's operating units. Finance reports to the Board on a monthly basis.

Market risk

Foreign currency risk
The consolidated entity has minimal exposure to foreign exchange risk, holding one US dollar bank account.

The carrying amount of the consolidated entity's foreign currency denominated financial assets and financial liabilities at the reporting date was as follows:

	Assets		Liabilities	
	2011	**2010**	**2011**	**2010**
	$	**$**	**$**	**$**
Consolidated				
US dollars	261,027	419,365	-	

Based on this exposure, had the Australian dollar weakened by 40% / strengthened by 40% (2010]: weakened by 40% / strengthened by 40%) against the US dollar with all other variables held constant, the consolidated entity's profit before tax for the year would have been $104,411 lower/$104,411 higher (2010 : $167,746 higher / $167,746 lower) and equity would have been $104,411 higher / $104,411 lower (2010 : $167,746 higher / $167,746 lower). The percentage change is based on management’s assessment of reasonable possible fluctuations taking into consideration movements over the last 3 months each year and the spot rate at each reporting date.

Price risk
The consolidated entity is exposed to commodity price risk due the fact that it receives the majority of its royalty revenue in gold bullion. At any time it will hold gold bullion at the Perth Mint and also have a royalty receivable that is payable in gold. At 30 June 2011 it had $1,510,302 (2010 : $4,651,824) of assets denominated in gold.

Based on this exposure, had the gold price weakened by 30% / strengthened by 30% (2010]: weakened by 30% / strengthened by 30%%) against the Australian dollar with all other variables held constant, the consolidated entity's profit before tax for the year would have been $453,091 lower/$453,091 higher (2010 : $1,395,547 lower/$1,395,547 higher) and equity would have been $453,091 lower/$453,091 higher (2010 : $1,395,547 lower/$1,395,547 higher). The percentage change is based on management’s assessment of reasonable possible fluctuations taking into consideration movements over the last 3 months each year and the spot rate at each reporting date.

The consolidated entity has implemented a policy in the last twelve months whereby it will not hold more than 20 per cent of its liquid assets in gold at any point in time.

In prior years the consolidated entity also had exposure to price risk on listed securities that it held. These have all been disposed of during the 2011 financial year.

Note 26. Financial instruments (continued)

Interest rate risk
The consolidated entity is not exposed to significant interest rate risk

Credit risk
Credit risk is managed on a consolidated entity basis. Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The vast majority of the consolidated entity's income comes from royalties. In the most part, royalty income comes from two major customers and all royalties have historically been paid on time and in full. The directors believe that they are only exposed to a very low risk of default.

Liquidity risk
Vigilant liquidity risk management requires the consolidated entity to maintain sufficient liquid assets (mainly cash and gold holdings) to be able to pay debts as and when they become due and payable.

The consolidated entity had net current assets of $14,533,511 at 30 June 2011 (2010 : $10,563,084). Based on this the directors are satisfied that the consolidated entity will have sufficient funds to meet its debts as and when they fall due.

Remaining contractual maturities
The following tables detail the consolidated entity's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

Consolidated - 2011	Weighted average interest rate %	1 year or less $	Between 1 and 2 years $	Between 2 and 5 years $	Over 5 years $	Remaining contractual maturities $
Non-derivatives						
Non-interest bearing						
Trade payables	-	54,020	-	-	-	54,020
Total non-derivatives		54,020	-	-	-	54,020

Consolidated - 2010	Weighted average interest rate %	1 year or less $	Between 1 and 2 years $	Between 2 and 5 years $	Over 5 years $	Remaining contractual maturities $
Non-derivatives						
Non-interest bearing						
Trade payables	-	83,515	-	-	-	83,515
Total non-derivatives		83,515	-	-	-	83,515

Note 26. Financial instruments (continued)

Fair value of financial instruments

The following tables detail the consolidated entity's fair values of financial instruments categorised by the following levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

Consolidated - 2011	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Gold Assets	1,510,302	-	-	1,510,302
Total assets	1,510,302	-	-	1,510,302

Consolidated - 2010	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Ordinary shares	160,000	-	20,000	180,000
Gold Assets	4,048,567		-	4,048,567
Total assets	4,208,567	-	20,000	4,228,567

There were no transfers between levels during the financial year.

Movements in level 3 financial instruments

Movements in level 3 financial instruments during the current and previous financial year are set out below:

	Available-for-sale $	Total $
Consolidated - 2011		
Balance at 1 July 2009	20,000	20,000
Balance at 30 June 2010	20,000	20,000
Sales	(20,000)	(20,000)
Balance at 30 June 2011	-	-

Changing one or more inputs would not significantly change the fair value of level 3 financial instruments.

During the year the consolidated entity sold all of its level 3 financial instruments at a profit of $183,469.

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value. The carrying amounts of trade receivables and trade payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial instruments.

Note 27. Key management personnel disclosures

Compensation
The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

	Consolidated 2011 $	Consolidated 2010 $
Short-term employee benefits	564,881	532,488
Post-employment benefits	100,000	84,335
Long-term benefits	21,017	5,320
	685,898	622,143

Shareholding
The number of shares in the parent entity held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

2011	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
Ordinary shares					
Mr P Topham	5,200,400	-	180,000	-	5,380,400
Mr D Ogg	3,960,400	-	-	-	3,960,400
Mr T Eadie *	48,000	-	-	(48,000)	-
Mr B Pertzel	15,000	-	-	-	15,000
	9,223,800	-	180,000	(48,000)	9,355,800

* resigned on 23 November 2010.

2010	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
Ordinary shares					
Mr P Topham	5,200,400	-	-	-	5,200,400
Mr D Ogg	3,945,193	-	15,207	-	3,960,400
Mr T Eadie	48,000	-	-	-	48,000
Mr B Pertzel	-	-	15,000	-	15,000
	9,193,593	-	30,207	-	9,223,800

Note 27. Key management personnel disclosures (continued)

Option holding
The number of options over ordinary shares in the parent entity held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

2011	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
Options over ordinary shares					
Mr Peter Topham *	1,400,000	-	-	(1,400,000)	-
Mr David Ogg *	980,000	-	-	(980,000)	-
Mr Tom Eadie *	150,000	-	-	(150,000)	-
Mr Bruce Pertzel *	180,000	-	-	(180,000)	-
	2,710,000	-	-	(2,710,000)	-

* all options expired unexercised durng the year.

2010	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
Options over ordinary shares					
Mr P Topham	1,400,000	-	-	-	1,400,000
Mr D Ogg	980,000	-	-	-	980,000
Mr T Eadie	150,000	-	-	-	150,000
Mr B Pertzel	180,000	-	-	-	180,000
	2,710,000	-	-	-	2,710,000

Related party transactions
Related party transactions are set out in note 31.

Note 28. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Leydin Freyer Audit Pty Ltd, the auditor of the company, and its related practices:

	Consolidated	
	2011	**2010**
	$	**$**
Audit services - Leydin Freyer Audit Pty Ltd		
Audit or review of the financial report	39,000	32,000
Other services - unrelated practices		
Alas, Oplas and Co	-	4,516
	-	4,516

The auditor of Royalco Resources Limited is Ms Loren Datt of Leydin Freyer Audit Pty Ltd. Under the auditor rotation policies, Ms Melanie Leydin of Leydin Freyer Audit Pty Ltd resigned as auditor on 20 June 2011 and Ms Datt was appointed.

Note 29. Contingent liabilities

The consolidated entity did not have contingent liabilities at 30 June 2011 or 30 June 2010.

Note 30. Commitments for expenditure

	Consolidated 2011 $	Consolidated 2010 $
Lease commitments - operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	65,000	-
One to five years	84,500	20,394
	149,500	20,394
Exploration tenements		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	-	85,000
One to five years	-	14,942
	-	99,942

Operating lease commitments includes contracted amounts for various retail outlets, warehouses, offices and plant and equipment under non-cancellable operating leases expiring within one to three years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

In order to maintain current right of tenure to exploration tenements, the Company and economic entity is required to outlay rentals and to meet the minimum expenditure requirements of the Filipino Mines Departments. Minimum expenditure commitments may be subject to renegotiation and with approval may otherwise be avoided by sale, farm out or relinquishment.

Note 31. Related party transactions

Parent entity
Royalco Resources Limited is the parent entity.

Subsidiaries
Interests in subsidiaries are set out in note 33.

Key management personnel
Disclosures relating to key management personnel are set out in note 27 and the remuneration report in the directors' report.

Note 31. Related party transactions (continued)

Transactions with related parties
The following transactions occurred with related parties:

	Consolidated	
	2011	**2010**
	$	**$**
Payment for other expenses:		
Consulting fees paid to David Ogg and Associates (an entity associated with Mr David Ogg)	133,568	128,475
Consulting fees paid to Alpha Unicorn Company Pty Ltd (an entity associated with Mr Bruce Pertzel)	38,150	38,150
Rent paid to Copper Strike Limited (an entity associated with former director Mr Tom Eadie)	18,069	25,880

Receivable from and payable to related parties
There were no trade receivables from or trade payables to related parties at the reporting date.

Loans to/from related parties
There were no loans to or from related parties at the reporting date.

Terms and conditions
All transactions were made on normal commercial terms and conditions and at market rates.

Note 32. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of comprehensive income

	Parent	
	2011	**2010**
	$	**$**
Profit after income tax	5,549,366	2,861,842
Total comprehensive income	5,549,366	2,861,842

Note 32. Parent entity information (continued)

Statement of financial position

	Parent 2011 $	Parent 2010 $
Total current assets	16,048,669	12,066,888
Total assets	19,319,650	14,863,762
Total current liabilities	943,688	1,175,737
Total liabilities	1,854,863	1,894,007
Equity		
Contributed equity	12,321,611	12,321,611
Reserves	-	676,441
Retained profits/(accumulated losses)	5,143,176	(28,297)
Total equity	17,464,787	12,969,755

Contingent liabilities
The parent entity had no contingent liabilities at 30 June 2011 and 30 June 2010

Royalco Resources Ltd has not provided any guarantees in relation to its subsidiaries. The consolidated disclosures made in relation to guarantee, contingent liabilities and capital commitments all relate to the parent, and therefore it is not necessary to disclose them separately.

Capital commitments - Property, plant and equipment
The parent entity had no capital commitments for property, plant and equipment at 30 June 2011 and 30 June 2010. Refer to Note 31 for details of lease commitments all of which relate to the parent. The exploration commitments relate to a subsidiary.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1.

Note 33. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1:

Name of entity	Country of incorporation	Equity holding 2011 %	Equity holding 2010 %
Royalco Philippines Inc	Philippines	100.00	100.00
Ginto Minerals Pty Ltd	Australia	100.00	100.00
Royalco Resources (No1) Pty Ltd	Australia	100.00	100.00
Royalco Resources Cambodia Ltd	Cambodia	100.00	100.00

Note 34. Events occurring after the reporting date

On 5 September 2011, the Company paid a dividend of 2 cents per share, totalling $1,054,334.

On 1 August, Silver Standard Australia Pty Ltd announced the sale of its Bowdens silver project to Kingsgate. Royalco has a 2% NSR over the project until $5,000,000 whereupon the royatly falls to a 1% NSR. It is anticipated that production could commence in early 2014.

No other matter or circumstance has arisen since 30 June 2011 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Note 35. Reconciliation of profit after income tax to net cash from/(used in) operating activities

	Consolidated	
	2011	2010
	$	$
Profit after income tax expense for the year	5,647,507	2,919,966
Adjustments for:		
Depreciation and amortisation	92,801	93,679
Net fair value gain on other financial assets	-	(479,502)
Non cash royalties net of withholding tax	(7,323,541)	(7,389,296)
Impairment of exploration expenditure	112,927	2,541,248
Profit on sale of financial assets	(188,552)	(119,028)
Employee entitlements	51,962	338,703
Change in operating assets and liabilities:		
Decrease in trade and other receivables	170,263	963,719
Increase in deferred tax assets	(37,367)	(66,404)
Decrease in other operating assets	2,735	2,581
Decrease in trade and other payables	(29,495)	(25,077)
Increase in provision for income tax	251,231	960,107
Increase in deferred tax liabilities	176,718	648,178
Increase in other operating liabilities	119,292	-
Net cash from/(used in) operating activities	(953,519)	388,874

During the year the company has received royalties of $8,548,120. Of the total royalties received or receivable $7,323,541 were paid or payable in gold bullion, including withholding tax, with the remainder being in cash. During the year, the company has converted gold into cash of $8,450,722, which has been recognised as a cash flow from investing activities. In addition to this the Company is holding gold valued at $1,510,302 and is owed royalties receivable in gold of $992,023 at 30 June 2011.

Note 36. Earnings per share

	Consolidated 2011 $	Consolidated 2010 $
Profit after income tax attributable to the owners of Royalco Resources Limited	5,647,507	2,919,966
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	52,714,183	52,714,183
Adjustments for calculation of diluted earnings per share:		
Options	2,700,082	3,610,000
Weighted average number of ordinary shares used in calculating diluted earnings per share	55,414,265	56,324,183
	Cents	**Cents**
Basic earnings per share	10.71	5.54
Diluted earnings per share	10.19	5.18

Note 37. Share-based payments

There were no share based payments made in the 2011 or 2010 financial year.

In the directors' opinion:

- the attached financial statements and notes thereto comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;

- the attached financial statements and notes thereto comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial

- the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the financial year ended on that date; and

- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5) of the Corporations Act 2001.

On behalf of the directors

Peter Topham
Executive Chairman

28 September 2011
Melbourne

LeydinFreyer

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Independent Auditor's Report

To the Directors of Royalco Resources Limited

Report on the Financial Report

We have audited the accompanying financial report of Royalco Resources Limited, which comprises the statements of financial position as at 30 June 2011, the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Royalco Resources Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

(a) the financial report of Royalco Resources Limited. is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the company's and consolidated entity's financial positions as at 30 June 2011 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the consolidated financial statements and notes in the financial report also comply with *International Financial Reporting Standards* as disclosed in Note 3.1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 13 to 18 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Royalco Resources Limited for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.

LOREN DATT
Registered Company Auditor
Registration: 339204

28 September 2011

CORPORATE GOVERNANCE STATEMENT

The Board of Directors ("the Board") of Royalco Resources Limited ("the Company") supports the establishment and ongoing development of good corporate governance policies, that are compatible with the Company's size and which ensure an appropriate level of accountability to shareholders and other stakeholders.

A description of the Company's main corporate governance practices is set out below. It is also accessible at the Company's website www.royalco.com.au under the "Corporate" tag which has a sub heading for corporate governance. In August 2007, the ASX issued a revised set of corporate governance principles and recommendations intended to take effect from 1 January 2008.

The recommendations are not prescriptions and are intended as guidelines only. The Board has sought to apply the revised recommendations to the extent relevant to the Company's size and scale of operations.

Recommendation 1.1: Establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.

The Company's activities are currently not of a sufficient size nor are its affairs of such complexity to justify the employment of full-time management personnel. Accordingly most of the functions of management are undertaken by consultants under the supervision of the Executive Chairman who is responsible for management activities under delegated authority of the Board. The functions specifically reserved for the full Board are as follows:

a) Setting and monitoring of objectives, goals and strategic direction with a view to maximising shareholder value, consistent with ethical behaviour and acceptable risk parameters;
b) Approving budgets and monitoring financial performance;
c) Identifying significant business risks and ensuring that these are appropriately managed;
d) Approval of any significant asset acquisitions or disposals;
e) Selection and appointment of new Directors; and
f) Appointment and removal of the Executive Chairman.

Recommendation 1.2: Disclose the process for evaluating the performance of senior executives.

The performance of all Directors, and senior executives is reviewed at least annually. The Board evaluates the performance of the Executive Chairman and any other senior executives having regard to such things as:

a) The responsibilities of the executive;
b) Performance against budget;
c) Any communicated key performance indicators; and
d) Qualitative as well as quantitative measures.

No Director or senior executive is involved with his or her own evaluation, and the remainder of the Board evaluates such parties without such parties being present.

A review of the performance of the Board, its Directors and senior executives was carried out in August 2008, and was undertaken in accordance with the above policy.

Recommendation 2.1: A majority of the Board should be independent Directors.

The Company does not currently have a majority of non-executive independent Directors.

Due to the Company's size and its specialised operations, the Board considers that a majority of independent Directors is not currently warranted. As the Company's activities expand, this policy will be reviewed, with a view to aligning the Company's policies to conformity with this recommendation. The Board recognises that Directors remain in office for the benefit of and are accountable to shareholders and that shareholders have the voting power to elect members to the Board regardless of their standing, independent or otherwise.

The effectiveness of the Board is achieved through the Directors' knowledge and experience specific to the business and the industry in which the Company operates. Any Director may seek their own independent advice at the Company's expense to assist them in the performance of their duties to the Company and the shareholders.

Recommendation 2.2: The Chairperson should be an independent director.

Mr Peter Topham, the Executive Chairman, is not an independent Director. Whilst the Board recognises that it is desirable for the Chairman to be an independent director, the Company's current early stage of development and size dictate that this is the most efficient mode of operation at the current time. The Board will review the appointment of an independent Chairperson should the Company's size and growth warrant this.

Recommendation 2.3: The roles of chair and Chief Executive Officer should not be exercised by the same individual.

As noted, Mr Peter Topham is the Executive Chairman of the Company. For similar reasons expressed in relation to recommendation 2.2, the existing arrangement is the most efficient mode of operation at the current time for the Company's early stage of development and size. The Board will review the appointment of a separate Chairperson should the Company's size and growth warrant this.

Recommendation 2.4: The Board should establish a nomination committee.

The Board considers that the Company is not currently of a size to justify the formation of a nomination committee. The Board as a whole undertakes the process of reviewing the skill base and experience of existing Directors and the identification of attributes required in new Directors. The Board as a whole also reviews Board succession plans, appointment and re-election of Directors and the process for evaluation of the performance of the Board, its Members and Senior Executives (as outlined under recommendation 1.2). Where appropriate, independent consultants will be engaged to identify possible new candidates for the Board.

Should the Company's activities increase in size, scope and nature, the appointment of a nomination committee will be reviewed by the Board and implemented if appropriate.

Recommendation 2.5: Disclose the process for evaluating the performance of the board, its committees and individual directors.

See the comments under recommendation 1.2 above.

Recommendation 3.1: Establish a code of conduct and disclose the code or a summary of the code as to:

- **the practises necessary to maintain confidence in the Company's integrity;**
- **the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders;**
- **the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.**

The Company has adopted a Corporate Code of Conduct, and a Code of Conduct for executives, which can be accessed at the Company's website at www.royalco.com.au under the "Corporate" tag which has the appropriate sub headings.

Recommendation 3.2: Establish a policy concerning trading in Company securities by Directors, senior executives and employees, and disclose the policy or a summary of that policy.

The Company has adopted a Trading Policy which can be assessed at www.royalco.com.au under the "Corporate" tag which has the appropriate sub heading.

CORPORATE GOVERNANCE STATEMENT (CONT'D)

Recommendation 4.1: The Board should establish an audit committee.

The Board considers that the Company is not currently of a size to justify the formation of an Audit Committee and instead these functions are performed by the whole Board. All items that would normally be dealt with by an Audit Committee are dealt with at Board meetings. Such matters include:

a) Establishment and review of internal control frameworks within the Company;
b) Review of the financial statements, annual report and any other financial information distributed to shareholders or other external stakeholders;
c) Review of audit reports and any correspondence from auditors, including comments on the Company's internal controls;
d) Nomination of the external auditor and reviewing the adequacy of the scope and quality of the annual audit and half year review; and
e) Monitoring compliance with the Corporations Act, ASX listing Rules and any other regulatory requirements.

Recommendation 4.2: The audit committee should be structured so that it consists only of non-executive Directors;

- **consists of a majority of independent Directors;**
- **is chaired by an independent Chairperson, who is not Chairperson of the Board;**
- **has at least three members**

See comments under recommendation 4.1 above.

Recommendation 4.3: The audit committee should have a formal charter.

See comments under recommendation 4.1 above

Recommendation 5.1: Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.

The Company has adopted a continuous disclosure policy that requires all Directors, Officers and executives to inform the Chairman, or in his absence the Company Secretary, of any potentially material information as soon as practicable after they become aware of that information. The Company does not currently have a formal written policy in place, but instead relies on the extensive experience of the Board and senior management to ensure ongoing compliance.

Recommendation 6.1: Design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose that policy or a summary of that policy.

The Company has a disclosed policy for effective communication with shareholders which is available at the corporate governance statement on the Company's website at www.royalco.com.au under the "Corporate" tag which has the appropriate sub heading.

Recommendation 7.1: Establish policies for the oversight and management of material business risk and disclose a summary of those policies.

The Company has established policies for the oversight and management of material business risks which is available at the corporate governance statement on the Company's website atwww.royalco.com.au under the "Corporate" tag which has the appropriate sub heading.

Recommendation 7.2: The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.

Management has not formally reported to the Board as to the effectiveness of the company's management of its material business risks .All business risks are the responsibility of the Board, and the Board believes the risk management and internal control systems designed and implemented by the Directors and the Chief Financial Officer are adequate given the size and nature of the Company's activities. The Board requests management to report informally on risk management and internal control, and to highlight any additional risks that may have been identified, as well as reporting on matters that may have arisen from the Company's internal control procedures. The Company intends to develop the risk reporting framework into a detailed policy as its operations continue to grow.

Recommendation 7.3: The Board should disclose whether it has received assurance from the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

The Board receives such assurances prior to the release of the Company's full year and half year accounts.

Recommendation 8.1: The Board should establish a remuneration committee.

The Board considers that, based on the Company's stage of development, no benefits or efficiencies are to be gained by delegating this function to a separate committee. The process for evaluating both executives and directors remuneration is explained under recommendation 1.2 above. There are no schemes for retirement benefits, other than superannuation for non executive directors.

Recommendation 8.2: Companies should clearly distinguish the structure of Non-Executive Directors' remuneration from that of Executive Directors.

The structure of Executive and Non-Executive Directors' remuneration is detailed in the remuneration report, which forms part of the Directors' report in the annual report.

Royalco Resources Limited
Shareholder information
30 June 2011

The shareholder information set out below was applicable as at 13 September 2011.

Distribution of equitable securities
Analysis of number of equitable security holders by size of holding:

	Number of holders of ordinary shares
1 to 1,000	24
1,001 to 5,000	168
5,001 to 10,000	130
10,001 to 100,000	272
100,001 and over	36
	630
Holding less than a marketable parcel	-

Equity security holders

Twenty largest quoted equity security holders
The names of the twenty largest security holders of quoted equity securities are listed below:

	Ordinary shares	
	Number held	% of total shares issued
Penson Australia Nominees Pty Ltd	14,415,682	27.35
Keryn Anne Topham	4,530,000	8.59
National Nominees Limited	4,484,812	8.51
JP Morgan Nominees Australia Pty Ltd	3,638,188	6.90
Bell Potter Nominees Limited	3,000,000	5.69
Meballa Pty Ltd	2,400,000	4.55
Patricia Daly and David Ogg	1,200,000	2.28
David Ogg and Associates Pty Ltd	690,000	1.31
Mianer Pty Ltd	650,000	1.23
Porthill Resources Pty Ltd	530,400	1.01
David Segal	400,000	0.76
Pearl and David Klein	332,500	0.63
Miriam Aviva Tatarka	300,000	0.57
Jeffrey Ian Thompson	293,114	0.56
Hubertha Jessop	288,000	0.55
Whorouly Pty Ltd	270,000	0.51
Dorran Pty Ltd	250,000	0.47
Errol Goldschmidt	245,500	0.47
David Lindsay Ogg	240,000	0.46
Roslyne Sztar	209,000	0.40
	38,367,196	72.80

Unquoted equity securities
There are no unquoted equity securities.

Royalco Resources Limited
Shareholder information
30 June 2011

Substantial holders

Substantial holders in the company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
Penson Australia Nominees Pty Ltd	14,415,682	27.35
Keryn Anne Topham	4,530,000	8.59
National Nominees Limited	4,484,812	8.51
JP Morgan Nominees Australia Pty Ltd	3,638,188	6.90

Voting rights

The voting rights attached to ordinary shares are set out below:

Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are no other classes of equity securities.